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Apex Study of the Small Enterprise Development Program of Catholic Relief Services Thailand

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7250 Woodmont Avenue, Suite 200, Bethesda, Maryland 20814

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Apex Study of the Small Enterprise Development Program of Catholic Relief Services Thailand

by

Aralis Gomez Alfonso

with

Nan Borton

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LIST OF ACRONYMS

AGS	Asociación de Grupos Solidarios de Colombia (Association of Solidarity Groups of Colombia)
CIDA	Canadian International Development Agency
CRS/SED-Thai	Catholic Relief Services Small Enterprise Development Program in Thailand
CU/U-Bon	Credit Union of U-Bon
CUBDU	Credit Union Business Development Unit
CULT	Credit Union League of Thailand, Ltd.
FIAM	Foundation for Integrated Agriculture Management
NGO	nongovernmental organization
NGO-CORD	Nongovernmental Organizations Coordinating Committee
PACT	Private Agencies Collaborating Together
RFA	Rural Friends Association
SME Net	Small and Micro Enterprise Development Network

EXECUTIVE SUMMARY

The purpose of this study is to analyze the possibilities of creating an apex institution to serve as a vehicle for expanding the Small Enterprise Development program of Catholic Relief Services in Thailand (CRS/SED-Thai, referred to in the text as CRS/SED).[1]

The study is divided into four main sections. The first section presents a brief description of the SED program, the village bank methodology it employs, and the organizations that implement it. The first section also describes the main program accomplishments, strengths, and weaknesses to date.

The second section analyzes the advantages and disadvantages of working through apex organizations that already exist. This section also outlines the different issues involved in creating an apex institution to support the expansion of village banking programs in Thailand.

The third section presents the main conclusions of the study, and the fourth proposes an apex organization model for the CRS/SED program in Thailand. The model covers specific components such as the organizational and administrative structure, management information systems, services to be provided, staffing needs, and financial sustainability. It also proposes expansion strategies based on the abilities of partner institutions to implement the program and the methodology to be used, support systems available to the program, and geographic saturation.

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[1] An apex organization is one that coordinates several other organizations and provides services to its members. The term is used commonly in the small enterprise development field.

SECTION ONE

DESCRIPTION OF THE PROGRAM

The Catholic Relief Services Small Enterprise Development Pilot Program in Thailand (CRS/SED-Thai or CRS/SED) began operation in September 1988. The main purpose of the program was to develop a village banking methodology for providing loans to poor village women in northeastern Thailand.

The program was designed to be implemented in two phases. During Phase I (September 1988-August 1991), CRS/SED established a support center to work with three local nongovernmental organizations (NGOs) in promoting 30 community banks and serving 1,500 women villagers. The center provided technical assistance to local NGOs in community banking methodology, management information systems (MISs), and cost-recovery methods for strengthening their financial capabilities. In Phase II (September 1991-August 1993), CRS/SED is to consolidate lessons and explore options for creating an intermediary institutional structure to support the expansion of community banking.

The village banks are community-managed credit and savings associations that are established to improve members' access to credit, build a community self-help group, and help members accumulate savings. The banks provide small working capital loans starting from $50 and ranging to $300 in direct proportion to the borrower's savings. Loans are intended to be invested in activities with rapid turnover. A membership of 50 to 100 women elects a committee to manage the bank operations.

The participating NGOs borrow capital at 4 percent from the CRS/SED Support Center central fund and provide collective loans to the village banks at 12 to 14 percent. The credit line is expanded in direct proportion to the banks' collective savings at the end of a four-month cycle. Banks are expected to graduate from the external loans after three years (nine cycles).

The CRS/SED program is currently implemented through three organizations: the Rural Friends Association (RFA), Surin Province; the Foundation for Integrated Agriculture Management (FIAM), Roi-et Province; and the Credit Union League of Thailand, Ltd. (CULT), through the Credit Union of U-Bon (CU/U-Bon).

RFA and FIAM are community development organizations that provide an array of services, including agriculture, health, education, and credit, through a system of village extension workers. These organizations participate in the program in order to increase the income and self-sufficiency capabilities of the villagers. CULT is a second-tier cooperative organization that acts as the coordinator and representative of over 500 credit unions in Thailand. CULT has vast experience operating credit programs.

Since the program's implementation in 1988, RFA has created 12 community banks, FIAM has promoted 9 banks, and CULT, through CU/U-Bon, has promoted 1. Currently, 22 banks with a membership of 1,200 villagers are in operation. Members are involved in activities such as petty trade, food vending, tailoring, silk weaving, and to a lesser extent, farming and pig raising.

ACCOMPLISHMENTS TO DATE: PROGRAM STRENGTHS AND WEAKNESSES

Program Strengths

At the CRS/SED Level

The program manager has proven instrumental in effectively managing the program, in adapting the village bank methodology to local conditions, and in building a very good relationship between CRS and the participating NGOs. All this was achieved under difficult conditions considering that the village bank methodology was new to both CRS/Thailand and the participating NGOs.

Program monitoring has been good. The center has developed a computerized MIS to manage and monitor capital flows throughout the program, as well as program performance.

At the Implementation Level

The program has become increasingly attractive to the participating NGOs. The interviews with FIAM, CU/U-Bon, and RFA reveal the interest of these organizations in continuing the SED program even if CRS is not able to provide additional funding after the project ends. In fact, CU/U-Bon and FIAM are already seeking additional funding to expand the program. RFA is already promoting 30 community banks in addition to the 15 to be promoted under CRS/SED.

Field offices of FIAM, CU/U-Bon, and RFA are very committed to the program and closely supervise its development. Participating NGOs are committed to self-sufficiency, productivity, and a less charity-oriented approach in their credit programs.

At the Beneficiary Level

Bank members expressed strong satisfaction with the program. Indicators of this satisfaction are repayment rates of 100 percent in both external and internal accounts. Furthermore, the village banks have been able to maintain a membership of up to 60 women with dropout rates below 0.5 percent. For example, the Na-Poe Village Bank has after the ninth cycle a membership of 50 women with a 0 percent drop-out rate. The achievements of the community banks have attracted other women villagers to become members. The Na-Poe Bank has created a new bank with 19 newcomers.

Participating NGOs and beneficiaries deem the savings component to be one of the most successful features of the SED program. Most importantly, bank members affirm the village banks have helped them to solve the problem of indebtedness. Previously, because most rural communities lacked formal or informal savings and credit structures, villagers had no source other than the money lender when in need of additional or immediate cash.

Village bank members also affirm that the group mechanism and the access to credit have enhanced women's leadership in the communities. Women's activities have attracted not only the attention of other women but also the support of men, local leaders, and the church. Some banks have experienced substantial increases in their membership, for example, 50 to 96 in the Na-Poe, 46 to 92 in the U-Bon.

Program Weaknesses

At the CRS/SED Level

The center lacks a systematic training and technical assistance package aimed at strengthening the management capacity of the implementing organizations. It also lacks formal or informal mechanisms for facilitating exchange of learning among the NGOs.

There is a need for staff with strong financial backgrounds and the capacity to assist the NGOs in designing strategies for self-sufficiency, expansion, and financially sound portfolios.

CRS/SED is still having problems with adapting the village bank methodology to local conditions given the lack of experience of local NGOs in this kind of credit scheme. The fact that the CRS staff does not have enough familiarity with other programs has limited advances in this area.

Although it has accomplished much in monitoring and management of information, the center has not sufficiently developed indicators to measure changes in NGOs' efficiency and productivity.

At the Participating NGO Level

The capacity for program expansion is limited by the participating NGOs' lack of managerial and technical skills in managing CRS/SED. The SED principles of productivity and effectiveness are new among Thai NGOs, and as a result, the organizations have weak financial administration, extension methods, and monitoring mechanisms. At the end of Phase I of the CRS/SED program, the participating organizations are just beginning to learn about relationships among interest rates, inflation, loan terms, decapitalization, and portfolio rotation. They need to work toward achieving sound loan portfolios, tracking interest rates, defining self-sufficiency strategies, and establishing efficient credit-delivery and collection systems.

Program monitoring and follow-up of participating NGOs' central offices is weak, particularly in the cases of FIAM and CULT. The Bangkok offices for these organizations seem unaware of how the SED program is doing at the field level.

At the Community Bank Level

Groups are not saving at the expected rate of 20 percent. First, savings are affected by the fact that the CRS/SED community banks meet less frequently than expected in the original village bank methodology (monthly versus weekly meetings). Second, the slower production and income cycle that farmers have negatively affects their capacity to save. Third, strict restrictions in the banks' regulations, which make savings withdrawals very difficult, might negatively affect members' willingness to increase their savings.

Because graduation is measured according to savings levels, most groups will likely not graduate at the end of the three-year period as expected. A main flaw in using savings as the only indicator of the group's capacity to work on their own (graduation) is that it leaves out other important indicators such as group capacity to manage lending activities and group cohesion.

The methodology wrongly assumes no mobility within the groups (no dropouts or newcomers), similar levels of savings, and similar stages of development for all members. Foreseeing that its oldest groups will not be able to graduate, RFA is planning to continue technical assistance to the groups after their official graduation from the SED program. The organization believes that these groups would not be able to sustain operations without further assistance.

The loan amounts seem low, particularly for women who were already involved in income-generating activities before they became members. Many members of the oldest banks have already reached the $300 loan ceiling and yet need to supplement the SED loans with internal account loans for similar or higher amounts ($300 to $400).

CU/U-Bon community bank groups are facing problems with loan disbursement, which takes 20 to 30 days. The slow pace has caused conflict among the bank members, reduced confidence in the program, and adversely affected the capacity of the women to plan.

Attendance at group meetings is relatively low, especially given that the groups meet only once a month. Group activity during the meetings is minimal. Meetings are mainly devoted to loan collection and, given the large number of members per bank, the process is time consuming. Meanwhile, individual members use this time to hold informal conversations.

Accounting and management of internal accounts seem difficult for the illiterate group targeted by the SED program.

SECTION TWO

PROGRAM EXPANSION: APEX ORGANIZATIONS

AN APEX ORGANIZATION AS AN EXPANSION STRATEGY

Because some of the initial results of the CRS/SED program have been promising, the participating institutions are now seeking strategies to expand the village bank program to reach a larger number of beneficiaries. One strategy is the creation of an apex organization as the vehicle that would assist a number of member NGOs in scaling-up their operations.[1] This expansion strategy would strengthen a number of institutions and ensure that the SED will have a sustained impact on poverty.

CRS and other donors believe promoting an apex organization as a model of national expansion offers significant advantages over the current model, wherein institutions operate individually and their efforts do not cumulate into an overall program of wide scope, impact, and effectiveness.

SED scaling-up efforts in Thailand will require major investments in strengthening the managerial capacity of the implementing organizations. An apex organization could take advantage of the opportunities for economies of scale and cost efficiency that a group of institutions with common programs could offer.

CRS could minimize the technical assistance, training, and supervision costs involved in assisting participating NGOs. The apex could provide technical assistance, evaluation, staff training, and raising, and other services that would be more expensive for each institution to finance separately and that, as experience has shown, are essential to institutional strengthening and scaling-up operations

The SED village bank program is too new and most NGOs too young to involve themselves in an expansion venture when they are still struggling with understanding the methodology and strengthening their own programs. Because the implementing organizations are inexperienced in managing credit programs and introducing new methodologies, the apex organization could play an instrumental role in strengthening the organizations' program management skills and in accelerating effectiveness.

The apex would also play a role in giving unity, continuity, and a direction to the CRS/SED efforts in the country and serves as an excellent vehicle for methodology implementation, program expansion, and channeling of financial resources. It would become a forum for exchanging information and sharing experiences among the participating organizations.

An apex organization offers significant advantages in raising both national and international resources. Most donor agencies interested in supporting microenterprise programs prefer to provide large grants through an apex organization rather than small and limited financing to each program. The creation of an umbrella organization can serve the needs of several implementing agencies and provide other donors with a vehicle to allocate scarce development resources more efficiently.

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[1] Scaling up is another term used widely in the field of small enterprise development, and means expansion.

Scaling-up efforts require high levels of financial assistance. An apex could play a key role as financial intermediary that could not be played by NGOs. It could channel external financial resources and, most importantly, tap local resources, in particular the village banks' savings. The mobilization of domestic resources is particularly important for Thailand. As USAID prepares to leave the country, NGOs' access to external financial resources is becoming very difficult.

The experience of apex organizations such as the Nongovernmental Organizations Coordinating Committee (NGO-CORD) and CULT in Thailand has demonstrated that a group of institutions joined by a common development philosophy has a stronger political influence than institutions working separately. Apex members are able to influence local politicians, bring regional pressures to bear, and instigate changes at the national level.

A growing number of Thai NGOs has become interested in small and micro-level enterprise development, and current partners are interested in expanding their SED programs. For instance, RFA is already expanding the SED program beyond CRS support. Thirty new banks in addition to the 15 under CRS are already operating. Similarly, FIAM is looking for local donors and external donors other than CRS to continue program expansion. CULT has created a business development unit to foster enterprise initiatives among its membership.

There are already several efforts under way in Thailand to create apex organizations, indicating the NGOs' interest in working as a united front. Grouping 500 savings and loan cooperatives, CULT itself is one of the major apex organizations in Thailand. The Small and Micro Enterprise Development Network (SME Net) is composed of 40 NGOs with SED-related programs that meet to receive training and share experiences. NGO-CORD coordinates lobbying efforts for 40 rural development NGOs.

LIMITATIONS TO THE WORK OF AN APEX ORGANIZATION

The apex would require large subsidies for the first years while it developed experience and ability to generate internal resources. As it became more aggressive in financial intermediation and achieved self-sufficiency, the apex dependency on subsidies would disappear.

Working through an apex organization could reduce methodological and operational control of the programs, permitting certain inefficiencies in decision making that affect the pace of expansion. The NGOs' many boards of very diverse composition may distort the single vision needed to guide the expansion process. Having to work with so many different boards and take into account the various institutional priorities may complicate training and technical assistance activities as well.

Thai NGOs are newcomers to the field of small and micro-level enterprise. Given the shortage of personnel with strong background in SED in Thailand and their limited experience in the implementation of such a program, the creation of an apex would require a major investment of time, financial resources, and monitoring mechanisms.

Most Thai NGOs use an integrated approach that has resulted in a multiplicity of programs and little or no specialization. Most have 6, 7, and even 15 different programs spanning areas such as health, education, and environmental protection.

An additional constraint is a very charity-oriented approach in managing the programs (no interest charges, idealism) that interprets any attempts toward self-sufficiency and productivity as (undesirable) capitalism. This approach, along with the prevalent heterogeneity among the Thai institutions, poses serious constraints to program expansion in the short term.

EXPANSION THROUGH AN EXISTING APEX ORGANIZATION

The use of an apex organization as a vehicle for program expansion in Thailand could take two forms: using an existing apex organization or creating one. Both strategies offer interesting possibilities, advantages, and disadvantages, which should be carefully weighed. There are three possibilities for expanding the SED program through existing apex organizations in Thailand. They are CULT, NGO-CORD, and SME Net.

CULT is one of the major institutions in the cooperative movement of the country. It comprises over 500 credit unions (savings and loan cooperatives) and 86,724 members nationwide. Eighty-two percent of CULT's members are farmers.[2] As a very large federation, CULT has political clout from which SED could greatly benefit.

NGO-CORD is an umbrella of 40 rural NGOs established by the Canadian International Development Agency (CIDA). It facilitates working with many NGOs through one representative body. NGO-CORD mainly works in policy advocacy and information exchange. It represents 90 percent of the local NGOs doing rural development in Thailand, giving it strong political clout. Because of its good image with the government and strong bargaining power, NGO-CORD has been quite successful in policy advocacy at the national level.

SME Net is a training and information exchange forum created by Private Agencies Collaborating Together (PACT). SME Net consists of 40 national and international private voluntary organizations. Its main objectives include training of NGO staff in SED; strengthening linkages among NGOs, private resource organizations (universities, banks, training and research institutes), government agencies, and donors interested in SED; and supporting the institutionalization of a SED training facility. The network sponsors information seminars and training courses and publishes a bimonthly newsletter. As part of its training activities, SME Net has created a package and a year-long curriculum to teach NGOs basic management and financial principles as well as more sophisticated entrepreneurial concepts.

Among these three apex organizations, CULT offers the strongest potential as a vehicle for expansion of the SED program in terms of objectives, capacity for reaching large numbers of beneficiaries, experience in managing credit and savings schemes, administrative capabilities and structure, interest in SED, and financial capabilities.

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[2] CULT statistics, December 1990.

Capacity for Reaching Large Numbers of Beneficiaries

The three organizations, CULT, NGO-CORD, and SME Net, have a nationwide scope and therefore offer an array of outreach possibilities for the SED program. Yet CULT offers the additional advantage of a membership with a vast experience in both group organization and savings and loan schemes. These advantages could greatly facilitate program outreach and accelerate expansion.

Interest in SED

In its Five-Year Plan 1990-1995, CULT states a commitment to focus more on SED, first as a means to improve the economic conditions of the membership through investments in income-generating activities and, secondly, as a way to support the Thai government's efforts in industrializing the country. As a current CRS/SED partner, CULT already has applied the village bank methodology with very positive results. In fact, SED village banking is deemed one of the most dynamic programs ever operated by a member. CULT's commitment to foster SED and its positive experience with the village bank methodology are factors that could facilitate CULT's involvement with CRS/SED in a scaling-up operation.

In contrast, NGO-CORD and SME Net do not operate credit programs, nor do they contemplate doing so in the long term. SME Net wants to specialize in training. NGO-CORD is not interested in directly managing a credit fund for its membership. A major constraint to NGO-CORD as a potential vehicle for SED expansion is that, according to its bylaws, it cannot become a funding agency. Its role as a financial intermediary is therefore limited to proposal writing, lobbying, and channeling of donations to its members.

Administrative Capabilities and Structure To Manage the Program

Administratively, CULT has the structure, experience, and capacity to operate the program. The staff are regarded as very qualified, and the league devotes efforts and resources to training them through what seems to be a comprehensive curriculum. The league has established monitoring systems that provide regular records of the credit unions' programs, portfolios, and general financial situations. All credit unions use the same accounting system, one that is provided and audited by CULT.

The recently created Credit Union Business Development Unit (CUBDU) within CULT is fully devoted to supporting SED activities. The unit provides technical assistance to members in preparing feasibility studies and improving negotiation skills and marketing skills. The unit is in charge of providing staff training, information sharing, and access to institutions that could provide other services they may need. CUBDU disseminates information through a monthly newsletter, *Cooperative Business Development*. The CUBDU employs five people; 10 people from the field education department support the work of the unit.

Unlike CULT, NGO-CORD and SME Net do not have formal administrative structures. NGO-CORD operates as a committee; SME Net, currently managed by PACT local offices, operates as a forum. Neither organization has full-time staff.

Similarity of Objectives

CRS/SED and CULT share similar development philosophies and goals. They seek to make the program administratively strong through a more entrepreneurial approach. An objective stated in CULT's Five-Year Plan is to improve the managerial capabilities of the credit unions and to enable them to operate under market conditions. The league has the goal of achieving financial self-sufficiency by the end of 1995. It operates the credit fund with market interest rates, and although currently it provides basic courses (community organization, basic management) free of charge, it does charge for advanced courses and will annually increase the fee to cover 100 percent of the costs.

Membership composition also favors CULT over NGO-CORD and SME Net. With a large and very heterogeneous membership, NGO-CORD already serves too many interests. It groups national and international organizations (CARE, Foster Parents, CRS), regardless of their objectives and activities. SME Net membership is also very diverse in nature, including governmental, nongovernmental, national, and international organizations. CULT, in contrast, has a fairly homogeneous membership with common objectives, administrations, programs, and methodologies.

Financial Capabilities

Financially, the SED program could benefit most from the access to the large resources that the cooperative movement offers. CULT mobilizes the savings of more than 85,000 members and, through the recently created interlending mechanism, redirects the excess liquidity of some credit unions to those in need of additional funds. Furthermore, a recently obtained government approval that enables CULT to accept savings from the public has given CULT a new and vast source of additional funding. Under CULT's umbrella, the SED program would not face lack of funds; CRS could limit financing of the program to technical assistance, training, and monitoring aspects.

In contrast, NGO-CORD operations are heavily subsidized by CIDA and other international donor agencies, as its program activities generate no income. Similarly, SME Net activities are fully subsidized by PACT.

Notwithstanding the significant advantages of CULT as the potential apex vehicle for SED expansion, there are also several constraints to the strategy worth noting. At present, only credit unions can be members of CULT; NGOs are left out of the program. The General Assembly has already approved the idea of accepting NGOs as members of the league, and after strong lobbying, it obtained the government's consent under the condition that the NGOs were legally established. Yet it is not clear when the new policy would be implemented or what conditions would regulate NGOs' participation in and benefit from the league. A formal proposal for introducing the necessary changes in the league's bylaws is still being formulated. Once formulated it must be officially approved by the Assembly and then by the government. Both approval processes are very bureaucratic and slow.

The strong political clout of CULT also works against it: the government perceives the cooperative movement, particularly the credit unions, as too strong. In the past, the government had tried to slow CULT's growth by subjecting it to heavy government bureaucracy. The tension has eased in recent years, however, because of the league's commitment to assisting government efforts toward industrialization.

Although it has a solid administrative structure, CULT is seen by its members as too bureaucratic. Various levels of approval and geographical decentralization make decision making and implementation time and resource consuming. Initiatives requiring approval move from local credit unions to regional chapters to the Central Committee and finally to the General Assembly. The Five-Year Plan, for instance, took two years to prepare.

Another problem that members associate with CULT's administration is staffing. Understaffing and a high staff turnover affect CULT's capacity to manage a program such as the SED, the methodology and scaling-up goals of which require efficient administrative structures.

From a methodological standpoint, there are also limitations in working with CULT. Although CULT is committed to foster business development, it may not be bound to using CRS/SED methodology (village banking). First, its members may require larger loan amounts than those defined in the village bank methodology ($50 for the first loan). Second, there are not many incentives for group formation because members have relatively easy access to the credit unions' loans on an individual basis. Third, the SED/village banking focus on women may prevent gaining CULT board members' endorsement of the program. Finally, CULT's multiplicity of programs and activities could negatively affect the organization's commitment to SED.[3]

A key element in the CRS/SED approach, the participation of the beneficiaries in the decision-making process, is barely present in CULT. Whereas farmers represent 81 percent of all members, they comprised less than 2 percent of the board (two out of 20 board members). In contrast, teachers represent only 9 percent of the membership but comprise 50 percent of the board. The underlying assumptions are that some decisions are too technical for a farmer to make, the board needs "academy" people for lobbying and negotiating with the government, and teachers are highly respected by the Thai population at large.

EXPANSION THROUGH CREATING AN APEX ORGANIZATION

The creation of its own apex organization as an alternative strategy for SED program expansion offers many advantages to CRS/SED. In fact, CRS's experience with the Associationof Solidarity Groups (AGS) in Colombia suggests this is the most advisable alternative for a program as highly specialized as the SED.[4]

The creation of its own apex would give more focus to the CRS/SED program and enable it to secure specialized services from the implementing agencies. A newly created apex could best realize the economies of scale that a group of organizations with common philosophy and methodology could offer. As CRS's experience in Colombia has shown, specialization is one of the main factors that determines the success of an apex organization.

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[3] Health, education, rice banks, buffalo banks, village fisheries, women and youth, resettlements, fertilizer banks, debt release, family well-being, and credit and agriculture.

[4] Alfonso, Arelis Gomez with Nan Borton and Carlos Castello, "Apex Study of the Asociación de Grupos Solidarios de Colombia." GEMINI Working Paper No. 28. April 1992.

From an operational standpoint, the CRS/SED Support Center has already assumed the functions of an apex institution: It provides participating organizations with (a) access to funds, (b) technical assistance in implementation of the village bank methodology, (c) technical assistance in management and credit delivering systems, (d) a forum for exchange of experiences and information, (e) access to information obtained from pilot programs in microenterprise lending worldwide, through CRS; and (f) credibility and support before the government, the private sector, and donor agencies.

Currently located in northeast Thailand, the center operates independent from the main office to facilitate program follow-up and communications with the implementing agencies. It has developed a computerized MIS to manage and monitor capital flows throughout the program, as well as a computerized cost-revenue model for projecting break-even points for NGOs. The staff have been trained to assist in strengthening the NGOs' financial and administrative abilities to manage the program.

The question remains whether to create a new apex organization to assume the role presently played by the center or to institutionalize the work of the center by formally transforming it into a legally independent entity.

In the first instance, all the methodological, managerial, and financial capacity created by the center would need to be transferred to the apex, including experienced staff. The center would become a technical advisor to the apex, a conduit of financial support and international attention. In the second instance, the center, as a legally independent membership organization, would make the necessary adjustments for scaling up program operations.

A further decision is which legal entity the apex organization should take to allow for program expansion, institutional capacity building, and capitalization of domestic and international resources. Presently, the options are to become a foundation, an association, or a savings and loan cooperative.

Nonprofit development foundation status in Thailand offers several advantages. **Foundations** can operate credit programs that are not subject to government regulations on financial institutions (the Bank of Thailand regulates the activities of all financial institutions) as long as the foundations charge less than 2 percent interest a month. Yet a foundation's comparative advantage over other kinds of nonprofits, such as associations and cooperatives, is its legal ability to operate a trust fund. A trust fund could provide a good vehicle for mobilizing the beneficiaries' savings.

A main disadvantage is that foundations are required to deposit 200,000 Baht ($9,000) in a commercial bank account as fixed assets. From this account only interest may be withdrawn. All donations must be deposited in this account under the same conditions, although compliance is currently avoided by registering donations as project funds. In addition, foundations must submit reports on their operations regularly to the Department of Cultural Promotion of the Ministry of Education.

The legal approval for a foundation goes through at least six different levels of government. As a result, obtaining legal status may take at least two years, and tax-exempt status three more years. This is probably the reason why most Thai NGOs are not legally established. These requirements limit the operations of an apex, particularly in its role as a financial intermediary.

Associations face similar government bureaucracy in obtaining legal status. Their comparative advantage is that, whereas both foundations and associations can operate credit programs and receive donations, associations do not have to comply with the fixed deposit requirement, nor with the regular reporting to the government.

Savings and loans cooperatives (credit unions) offer a comparative advantage over associations and foundations in that they have the legal capability to mobilize savings and provide access to the vast financial resources of the cooperative movement. The disadvantage to cooperatives is that Thai credit union legislation does not provide for a union with institutions, rather than people, as members. CULT not only does not fall into this category but also seems reluctant to accept such a union as a member.

SECTION THREE

CONCLUSIONS AND RECOMMENDATIONS

The Phase II scaling-up objectives of the program could only take place in a cost-effective manner under the direction of a central body. The lack of managerial skills and cost-effective techniques among most NGOs, as well as the lack of experience in village banking methodology, would require this central body to play a major role in providing the technical assistance and financial resources required for any scaling-up operations.

The expansion goals of the SED program are limited by the low absorption capacity of most development organizations in Thailand. Poor management practices are the rule rather than the exception, and modern concepts of efficiency are not well known or even accepted among nationals directing development programs. Misconceptions about interest rates and loan terms have led most organizations to adopt a paternalistic approach in assisting the poor. Although most organizations have operated credit programs for many years, results have been quite disappointing overall.

Multiplicity of programs adversely affects specialization and program outreach. Most prevalent credit schemes lack both structure and methodology. They either do not have a credit technology that is appropriate for microlending (cooperatives), or they have one that it is far too expensive (NGOs).

Most development organizations are small and unlikely to realize economies of scale. Even with extensive support in the form of institution capacity building, NGOs might take several years to develop an absorption capacity sufficient to handle a large credit fund.

An apex organization could be a very good vehicle for expanding the SED program. It would enable CRS to continue supporting SED efforts in Thailand without having to work with many organizations simultaneously. It would also facilitate and attract the participation of other donor agencies. Given that financial resources for program expansion are limited, the apex would also allow CRS to take advantage of the economies of scale that working with a group of organizations with a common program provides. It would provide a forum for exchange and dissemination of information. It would give small enterprise development programs in Thailand greater representation and more political clout.

NGOs' strong interest in participating in the SED program and current partners' desire to expand suggest that an apex in Thailand would succeed. There is a long history of group formation in the country that could facilitate program implementation. The existence of apex organizations such as CULT, NGO-CORD, and SME-Net indicates the importance that Thai development organizations place on working together as a united front. Because NGOs are affected by common problems, using an apex organization as the vehicle to solve those problems makes sense.

The results of the CRS/SED program have been positive. The village bank methodology, proposed by CRS as the credit mechanism for the expansion phase, has proven effective in reaching the poor in large numbers, at a low cost, and with high repayment rates. The methodology has also been effective in facilitating the implementation of credit and savings schemes through organizations with limited management capabilities. The CRS/SED Support Center has been instrumental in promoting the village bank methodology, strengthening the NGOs' managerial capabilities, and accelerating the learning process among participating NGOs.

Using an existing apex organization could accelerate the process of program implementation because the organizational structures are already in place. As the strongest apex organization in Thailand, CULT offers many interesting possibilities for SED expansion: a wide scope, credit experience, managerial structure, and access to vast financial resources. However, limitations posed by CULT's bureaucracy, centralized decision making, high staff turnover, and multiplicity of programs, as well as the very specialized nature of the SED program and the village bank methodology, argue for the creation of SED's own intermediary body.

Creating an apex would allow a high degree of specialization because it would channel all objectives, services, activities, and resources into SED expansion. It would facilitate commitment from NGOs because they trust CRS programs. The CRS/SED Support Center, having already assumed the functions of an apex institution, should further develop its own capacity to successfully implement a scaling-up phase of the program. It should also explore the possibility of working jointly with Freedom From Hunger, an organization currently considering the establishment of an intermediary structure for its own village banking program. A proposed operational model for the center is described below.

SECTION FOUR

OPERATIONAL MODEL FOR THE CRS/SED SUPPORT CENTER

OBJECTIVES

The general objective of the center is to foster the expansion of the SED program in Senegal. Specific objectives are to strengthen the managerial capabilities of participating NGOs to support growing operations and to provide the necessary financial support for the credit funds of these organizations. As the organizations grow in strength, the role of the center would become that of financial intermediary for SED programs.

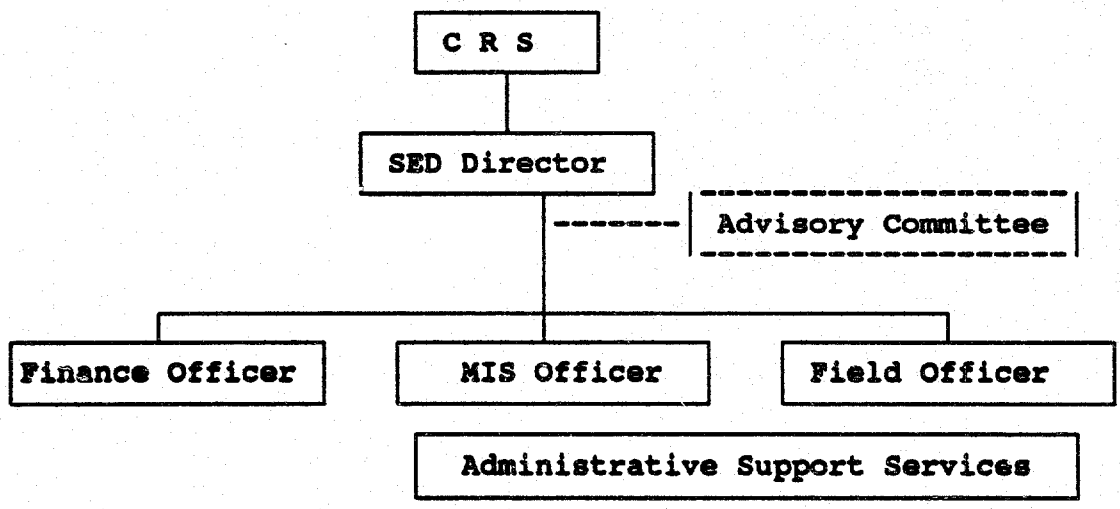
The center would be responsible for the program execution of the credit component, the coordination of technical assistance and training to be provided to the NGOs, and the selection of the implementing organizations.

ORGANIZATIONAL STRATEGY AND ADMINISTRATION

The administration of the center must be based on the same SED principles the center promotes among member NGOs: cost-effectiveness and self-sufficiency. The staff should be kept to the minimum required for effectiveness and should be composed of highly qualified people at all levels. Experience has shown that the strengths of the services of an apex organization lie in the qualification of the staff providing those services. A well-qualified staff is crucial in accelerating the learning process of both the center and the partners to improve program performance. The proposed organizational structure of the center, shown in Figure 1, is service oriented: management, finance, information systems, methodology, and follow-up.

FIGURE 1

CRS/SED SUPPORT CENTER'S ORGANIZATIONAL STRUCTURE



The SED Program Director would be in charge of program management. The director could also provide technical assistance to the NGOs in managerial aspects of the program. He or she would also act as the liaison with the CRS central office in Bangkok.

The Advisory Committee, made up of representatives of the partner NGOs, donor agencies, and program beneficiaries, would provide recommendations on the various program issues and policies. The committee would also act as a vehicle through which program beneficiaries would voice their concerns. The committee would have no decision-making power as long as the program is managed directly by CRS; however, the committee could be transformed into a government body if the SED center becomes a legal apex organization.

Although CRS favors a governing structure fully integrating village bank representatives, the participatory benefits may not outweigh the cost of a lack of technical decision-making ability. CRS's experience with AGS in Colombia and other successful SED programs confirms the importance of keeping a technical balance in the board. Scaling-up and self-sufficiency objectives require management expertise.

It is essential to have at the governing level representatives from the private sector who would actively support the center's administration in fund raising, negotiating with the formal financial sector, and reinforcing an entrepreneurial spirit. Accordingly, representatives from commercial banks and Rotary clubs could play a role in raising financial resources for the programs.

NGOs' representatives should be chosen mainly by their own board members for their potential contribution to the strengthening of the apex and its services. Representatives from donor agencies other than CRS should include those actively working in Thailand, such as the Ford Foundation, PACT, and CIDA.

The Finance Officer would be in charge of developing financial (self-sufficiency) strategies for both the center and the NGOs, including cost-recovery, credit-delivery, and collection methods. He or she would also promote the systematization of key accounting and portfolio management tasks in the participating NGOs.

The MIS Officer would develop data collection, monitoring, and evaluation of computerized systems.

The Field Officer would be in charge of providing technical assistance in methodology and monitoring program development. He or she would act as the link between the NGOs and the center.

The Administrative Assistant would provide secretarial as well as administrative support to the center.

The staff should cover the crucial areas in scaling-up operations: finance, administration, methodology, and monitoring and evaluation. Strengthening of these areas must take place simultaneously because they are complementary and interdependent.

Given budget limitations, the Field Officer and the MIS Officer could be recruited from the Peace Corps or agencies such as the International Voluntary Services or the Japan Voluntary Agency. This strategy would enable the center to retain as large a staff as program operations required.

The center's administration needs effective support in the areas of finance, program monitoring, and evaluation, including computerized control systems in accounting, internal control, portfolio management, impact evaluation, and staff performance. Such systems are essential in increasing productivity and reducing operational costs as well as in providing effective services to the membership.

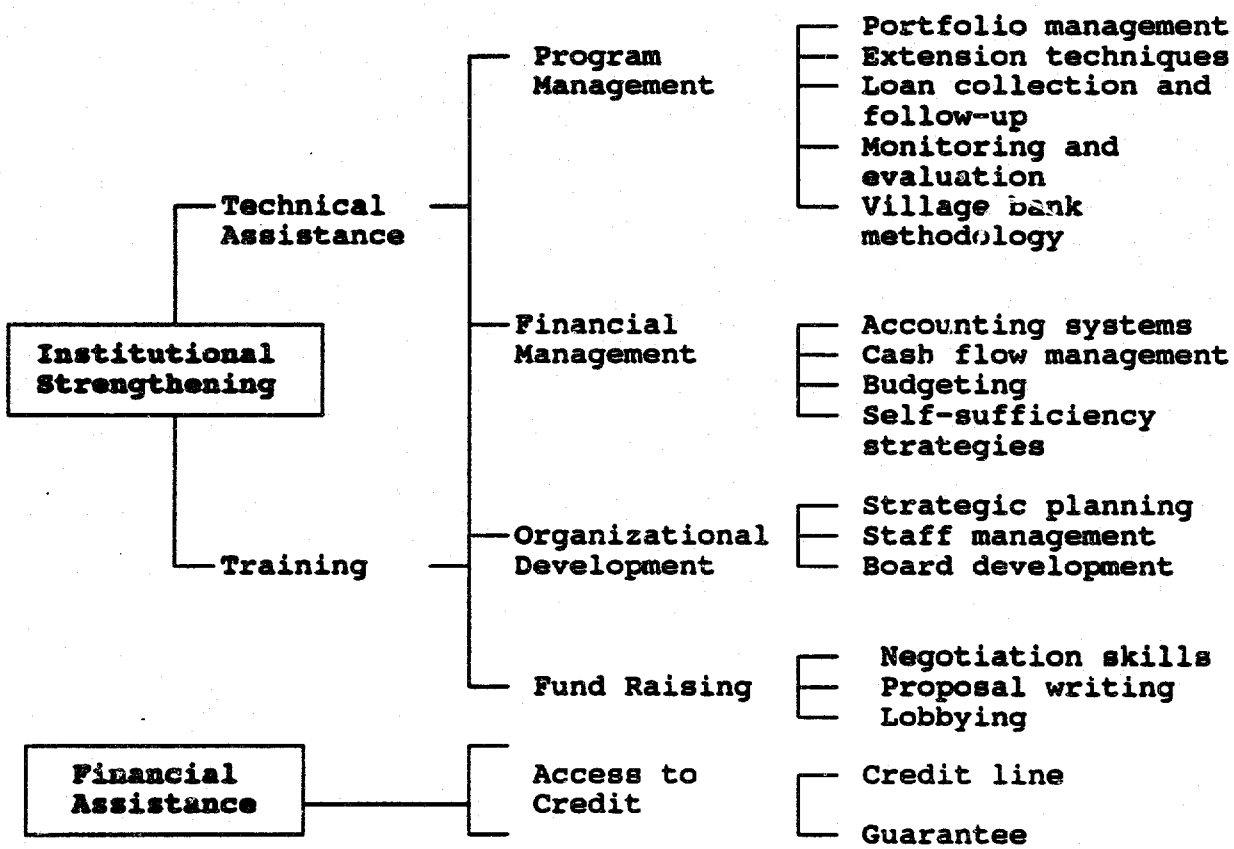
Technical criteria and mechanisms for resource allocation among the partners must be developed to avoid potential conflict of interest when the board makes such decisions. An independent project selection committee is an alternative that could be considered.

MODEL FOR PROVIDING SERVICES TO MEMBER ORGANIZATIONS

The proposed model for providing services to the member organizations (Figure 2) envisions two main components: institutional strengthening and financial assistance. Both components would be oriented to assist the implementing organizations in carrying out the program; they would not directly target the village banks. The model assumes that by strengthening the organizations in providing their services, the target groups would also be strengthened.

FIGURE 2

SUMMARY OF SERVICES TO BE PROVIDED



Institutional Strengthening

The expansion phase of the SED program would require a model that contained a strong institutional strengthening component. Scaling-up objectives could not be achieved without solid administrative structures in the implementing NGOs. This component would address the following current problems among Senegalese NGOs: poor administrative practices, lack of self-sufficiency strategies, charity-oriented approach to serving the poor, poor performance history of the credit programs, and lack of a structured methodology for providing credit and related services.

The main tools of the institutional strengthening component are technical assistance on a one-to-one basis and group training to participating institutions. Both would concentrate on very specific topics and would be provided by the center's staff or in coordination with suitable qualified public or private agencies and private consultants. Training sessions should be attended by program directors and field staff. The center would play a role in collecting and developing support materials such as manuals, training modules, and films to be used by the participating NGOs.

Technical assistance and training could be subsidized, at least until the implementing NGOs reach self-sufficiency levels. Nevertheless, NGOs should be required to pay an appropriate share of the costs (a 25 percent minimum). Cost sharing ensures that the NGOs have a genuine interest in receiving the assistance being offered to them. Program areas to be covered include the following.

Program Management

Training and technical assistance to NGOs' management and field staff should focus on the areas of portfolio management, loan delivery and collection, and monitoring and evaluation. Within these areas, field staff training in credit analysis and follow-up are key in achieving a sound portfolio. In addition, NGOs should be trained in cost-recovery methods and effective extension models for delivering technical assistance to village banks.

The center has already achieved a certain level of success in adapting the village bank methodology. As an apex organization, the center should keep looking for ways to adapt the village banking program to local needs and beneficiaries. For example, program variables might include loan amounts, ceilings, terms, and the frequency of repayments. The current village banking manual was designed to serve the urban poor, and any rural scheme should be subject to continuous monitoring and adaptations. The center should also be innovative in devising ways to improve attendance at community bank meetings; to train field staff in transferring skills to the village bank committees, which could then train their members (training of trainers); to develop leadership; and to improve management of internal accounts.

The SED program should consider measuring group graduation according to indicators other than savings rate. Management of the internal accounts, management capabilities of the committee, group cohesion, dropout rates, default rates, and other indicators could also measure the ability of the group to operate on its own. The savings rate only indicates that the group has sufficient resources in the credit fund to operate by itself; it does not indicate the capacity of the group to manage that fund, nor the cohesion that would enable the group to stay together when the promoting NGO is gone.

The center would provide technical assistance and training to implementing NGOs in developing data collection, monitoring, and evaluation mechanisms. The center would also play a role in teaching the NGOs the use of program statistics as tools in management, decision making, and leveraging

financial resources from donors. The computerization of the data management systems would be instrumental in increasing productivity and in improving the management and monitoring of the program expansion. Critical tasks in accounting, portfolio management, impact evaluation, and internal control require the use of computers.

To facilitate learning and communication, the center would schedule regular meetings with executive directors and field officers for exchange of information and lessons learned.

Financial Management

Financial self-sufficiency is intimately tied to the interest policy and the productivity of the programs. The center needs to devise strategies for self-sufficiency, interest rates, and cost-recovery systems from interest income flows. Participating NGOs need to improve their knowledge of SED principles:

- Efficiency and effectiveness (minimum costs and maximum impact);
- Nonsubsidized interest rates;
- Self-sufficiency;
- Short-term loans;
- Frequent installments;
- Easy transaction procedures;
- Innovative collateral; and
- Quick disbursement.

NGOs also need further training in the many of aspects of cash-flow management: calculation of interest rates (different methods); effects of these calculations on income; differences in nominal versus effective interest rates; effect of loan terms (and portfolio rotation) on program self-sufficiency; effects of inflation on the revolving fund (decapitalization); and effects of short- versus long-term loan on the portfolio, among others. Formal accounting practices and budgeting must be established as well.

Organizational Development

Assistance is required in short- and long-term planning, including the definition of goals, establishment of qualitative and quantitative indicators of achievement, and budgeting. The center would provide assistance in the areas of organizational structures, board development, and staff selection, management, and evaluation.

Training would include NGOs' board members and staff in developing a philosophical consensus regarding the scaling up of operations. This consensus would need to cover a range of issues involved in operational and financial self-sufficiency, including interest rate policies and the role of training and business assistance. Crucial to consensus is the vision that the institutions have about their roles as

development agencies. The traditional welfare mentality has to change, and implementing organizations should be run with an entrepreneurial approach.

Fund Raising

The center would further provide assistance in development of fund-raising plans, proposal writing, negotiation of lines of credit from formal sector financial institutions, and lobbying with government agencies as well as national and international donors. Assistance would include techniques to obtain materials, equipment, services, and other in-kind gifts.

Financial Assistance

The medium-term goal of the center is to become a financial intermediary for the implementing organizations. This financial intermediary role is essential for the NGOs' achievement of the scaling-up goals as well as for the center's achievement of its own financial self-sufficiency. The center would play a role in ensuring that the implementing NGOs do not rely only on the availability of inexpensive lines of credit but develop a role as agents of domestic capital mobilization. Program objectives would be to channel resources from national and international donor agencies, facilitate the program's access to formal financial-sector credit, and devise strategies aimed at mobilizing and managing the program beneficiaries' savings to increase the implementing institutions' loan portfolios or leverage third-party loans.

The financial component of the program would start with the creation of a line of credit that would provide short-term (one-year) loans to participating NGOs. Loan qualification criteria for fund allocation must be clearly defined based on the absorption capacity of the implementing organization. In order to ensure the fund's sustainability, the interest rate charged on loans would reflect the inflation rate, administrative costs, and a reserve for default loans.

Funds would be provided at an interest rate equal to the prevalent inflation rate plus 4 percent annually for administrative costs and reserve. The NGOs would use these funds to extend short-term (four-month) credit to the village banks at 2 percent a month or 24 percent annually. Counterpart financial resources should be required from the implementing organizations as an indication of genuine interest in the program, as a way to ensure more resources for the operation of their revolving funds, and as a way to increase the program's outreach.

The loan term for the NGOs would be up to 12 months with payments of interest every six months (according to the village banks' loan cycles) and one payment of capital at the end of the term. In this way the center would allow for the capitalization of the NGOs. The credit line would be revised by the center at the end of each term. Although CRS subsidizes the operation of the center, the interest collected would be used to capitalize the credit fund. Similar conditions would apply to the interest earnings of the implementing NGOs.

STRATEGIES FOR EXPANSION

Location

The center's offices and operations are already located directly in the target area. This by itself would greatly facilitate communications between the implementing NGOs and the center and improve program monitoring. By increasing the monitoring capacity, the potential for expansion is also increased.

Selection of Partners

CRS should emphasize the selection of partners as a key factor in program expansion. In the past CRS has favored grassroots initiatives, typically headed by strong leaders with poor management abilities. The scaling up of operations, however, would require a more entrepreneurial approach in choosing implementing partners. Strong organizational management capabilities determine the potential for reaching large numbers.

It is advisable to limit the number of partners, based on the highest potential for management, outreach, and effectiveness, and to avoid a multiplicity of partners that are dissimilar in purpose or restricted in scope. This streamlining determines the cost-effectiveness of the center, especially considering the limited financial resources available to the program. Thus, well-defined eligibility criteria for the selection of partners are crucial.

The eligibility criteria must enable the center to identify organizations with the characteristics described below:

- Strong commitment to self-sufficiency: willingness to use private sector tools in their management styles and decision making.
- Strong commitment to growth: willingness to make the necessary adjustments for rapid increases in productivity.
- Strong commitment to specialization: willingness to make SED the main program.
- An administrative structure with the capacity to operate a credit program such as SED, which has the potential for expansion.
- Experience in credit and savings programs.
- Sources of funding other than CRS, so as to avoid dependence on organizations that are fund driven and not necessarily committed to the program.
- Strong interest in the program, demonstrated by the willingness to commit counterpart resources.

Promotion of Village Banks

Methodologically the program expansion could be facilitated through village banking. This methodology has proven very effective in organizations that lack managerial capability, a problem that affects most Thai NGOs. The village bank mechanism enables small organizations to reach large numbers of beneficiaries rapidly, at low cost, and with remarkably good repayment rates (95 percent to 100 percent). Program management responsibilities are shared with the bank committees, which are very involved in loan processing, administration, and follow-up. Shared responsibility reduces both the administrative costs and, importantly, the risks for the implementing organization. Moreover, the fact that each bank could manage up to 50 members increases the capability of the implementing organization to reach large numbers rapidly. Given that most credit programs in Thailand face serious problems with repayment and have limited institutional capability to reach large numbers of people efficiently, the village banks offer a good alternative methodology for the provision of credit.

Nevertheless, village banks have several limitations. Because the loan amounts are very small (usually about $50), they are most suitable for beneficiaries whose capital requirements are very small. Accordingly, potential beneficiaries whose capital needs and length-of-loan requirements exceed the standards for village banks do not participate. Very small entrepreneurs generally reached by the village bank tend to have a limited ability to generate employment in the short term; they do, nevertheless, as individuals, convert from underemployed to fully employed.

Management Information Systems

The center's administration needs effective support in finance, program monitoring, and evaluation, including computerized control systems in accounting, internal control, portfolio management, impact evaluation, and staff performance. These systems are essential in increasing productivity and reducing operational costs as well as in providing effective services to the implementing organizations.

In the areas of program monitoring and evaluation, the center needs to further develop a set of indicators to monitor program performance. Among those indicators to consider are the following:

- Program efficiency: self-sufficiency rate, loan portfolio, delinquency rate, cost per community bank, cost per beneficiary, and cost per dollar lent; and

- Program effectiveness: number of banks, number of beneficiaries, dropout rate, average bank size, savings rate, number of loans, number of internal loans, and amount disbursed (internal and external accounts).

NGOs' monthly reporting on the performance of these indicators is crucial to the center's ability to measure program evolution and to introduce the necessary adjustments in the services provided to make them responsive to program needs. Indicators to evaluate program impact on an annual basis also need to be developed. They could include quantitative and qualitative indicators such as changes in income, leadership, and family well-being, among others.

Collecting data is time consuming and distracts the promoters from other duties. The responsibility for data collection should therefore be transferred to the village banks. During the first loan cycle the groups should go through sessions where they learn to collect and present data in a given format. Because the village bank methodology assigns most of the loan management to the groups, they

would simply need to add four or five impact indicators to the data they already collect. The village bank committees would make sure that every member presents this information on time.

During the first cycle the promoters would train members to fill out the data collection forms. After the cycle ends, data collection would therefore remain the beneficiaries' responsibility and would be a requisite for credit renewal for the following cycle. Although there are problems with the reliability of the self-monitoring strategy, it will reduce costs, rationalize follow-up, improve the information on which credit renewal is based, strengthen group cohesion, and serve as a pedagogical tool for the beneficiary, besides generating the necessary baseline data for evaluation purposes.

Saturation of Geographical Areas

Given the limited financial resources available for program expansion and the severe difficulties with communications and monitoring, saturation of geographical areas is the recommended strategy for expansion. Thus, program expansion should concentrate on specific regions instead of attempting nationwide coverage, and expansion should be based on the number of people reached, not on the number of villages covered. When the target area is saturated, the program would expand into other geographic areas. This strategy would greatly facilitate program management, implementation, and monitoring, but more importantly it would reach a larger number of beneficiaries at a lower cost over a shorter period of time.

ANALYSIS OF FINANCIAL SUSTAINABILITY

The program budget is estimated at $550,000, of which $500,000 would be used as seed capital for the credit fund (three-year period) and $50,000 for the center's operations, including a provision for the institutional strengthening component.

Program outreach and interest earnings projections for the credit program over a three-year period are presented in Tables 1 and 2. The general assumptions for the calculations are the following:

(a) The center is able to increase the number of participating NGOs to seven (current figure is three).

(b) Each NGO is able to create five village banks with an average of 50 members each.

(c) The average loan per member starts at $50 for the first cycle and increases 30 percent per cycle (three cycles per year).

(d) The interest rate is 12 percent and equals the sum of the inflation rate (7 percent) and administrative costs (5 percent).

(e) The center's loan terms to the NGOs require biannual interest payments and annual principal payments.

(f) The NGOs' loan term is six months with biannual interest and capital payments.

(g) The center capitalizes in full the interest earnings.

(h) Operational expenses amount to $50,000.

(i) The initial loan fund is $500,000.

TABLE 1

CRS/SED-THAI PROGRAM OUTREACH
($)

Year	NGOs (a)	Groups per NGO (b)	Avg. Members (b)	Total Members	Total Groups	Total Members	Avg. Loan per Member (c)	Total Disbursed	Annual Interest (d)	Loan Funds Available at End of Year (f)
Year 1	7	5	50	250	35	1,750	85	147,875	17,745	517,745
Year 2	7	10	50	500	70	3,500	114	397,784	47,734	565,479
Year 3	7	12	50	600	84	4,200	156	656,104	78,732	644,211

The program outreach during the first years of operation is limited by the center's capability to provide the necessary training and technical assistance and the NGOs' capacity to absorb funds. Therefore the number of implementing organizations should be determined by these two factors. Because the process of transferring the credit technology (village banking) to the NGOs would be time and resource consuming, the center would not be able to add more than five organizations to the program. Furthermore, these organizations would not be able to manage a large number of village banks. The organizations might take years to develop an absorption capacity sufficient to handle a large credit fund.

The proposed (minimum) interest rate of 12 percent annually is currently higher than the inflation rate of 7 percent but below the market rate of 17.75 percent and the usury rate of 24 percent. However, if loan terms are kept short, this rate would maintain the value of the center's credit fund and enable capitalization of the NGOs (because the spread would be 12 percent). As the organizations grow stronger, the interest rate charged by the center should reach market or near market levels. Under the above assumptions, the center should become operationally self-sufficient by the end of the third year.

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